AMCA International Highlights 1985

AMCA International

AMCA International is engaged worldwide in the design, engineering, manufacturing, marketing, installation and financing of a broad range of industrial products including machine tools, construction equipment and engineering and construction services.

Financial Highlights (Stated in millions)	1985	1984
Revenues	**$1,561.1**	$1,440.2
Income from continuing operations	**16.8**	5.1
Net income (loss)	**16.8**	(1.7)
Total assets	**1,387.3**	1,316.7
Long-term debt	**395.2**	412.1
Shareholders' equity	**591.3**	539.4
Per Common Share Data (Stated in dollars)		
Loss from continuing operations	**$ (0.12)**	$ (0.06)
Net loss	**(0.12)**	(0.26)
Common share cash dividends	**–**	1.00
Book value per common share	**9.45**	9.71
Common stock price (high/low)		
*Toronto Stock Exchange	**$20.375/13.125**	$28.00/17.00
**New York Stock Exchange	**$15.375/ 9.875**	$22.00/13.50

All figures in this booklet, except as noted, are stated in U.S. dollars.

Loss per common share is calculated by deducting dividends applicable to preferred shares from income from continuing operations and from net income (loss) with the result divided by the weighted average common shares outstanding during each year. Book value per common share is calculated by deducting equity attributable to preferred shares from total shareholders' equity with the result divided by the common shares outstanding at the end of each year.

Loss per common share for 1984 has been restated to give retroactive effect to the common stock dividend paid during 1985.

*In Canadian dollars.

**In U.S. dollars.

Following is an abbreviation of Management's Report to Shareholders published in AMCA's 1985 annual report.

Given the size, diversity and complexity of AMCA's business, the following comments are intended to provide an overall perspective with focus on the essence of certain matters. A review of AMCA's annual report for 1985 in its entirety is very much encouraged.

Results

During 1985, AMCA sold products and services totalling \$1.6 billion and earned about \$17 million net of taxes.

Focusing on pre-tax income from operations, and after reflecting a \$9.8 million pension refund in 1984, that represented a \$33 million improvement over 1984 on a \$120 million revenue increase. This reflects, in part, the effects of cost reduction programs implemented in the last several years and consequent leverage implicit in an improving market.

Despite this progress, when preferred share dividends were paid from the \$17 million profit, nothing was left for the common shareholder. In fact, AMCA had a shortfall of \$4 million. Still, the Company continues to recover from the major recession of '83 and '84 in measured fashion.

New business booked in 1985 was reasonably balanced throughout operations with the exception of Western Canada and some smaller businesses – and at a 20 percent higher rate than 1984. New business of \$1.8 billion represents a record.

Prices and profit margins on that work continued to improve over those prevailing in several prior years, underlining that AMCA is making headway albeit at a moderate pace.

AMCA's backlog turning into 1986 was just over \$700 million versus \$555 million a year earlier – a 26 percent gain. This trend is expected to continue.

These facts confirm, in a volume sense, that AMCA is approaching target levels but profit margins, while improving, are still 4-5 percentage points short of levels needed to generate sufficient annual pre-tax operating income to enable the Company to significantly utilize \$350 million in available tax loss carryforwards.

When that goal is reached, cash flow will accelerate sharply with positive implications for a number of things including common share dividends.

In 1985 a stock dividend on common shares was paid equal to 25 cents (US) per share (about one share for every 50 held) while preferred share dividends paid approximated \$21 million.

Operating Matters

During the year AMCA took measures to combat negative effects of the strong dollar by producing selected products in certain of the Company's foreign plants and by importing other products such as small excavators and smaller size machine tools from Japan and materials handling equipment from France.

Cost reduction continued to be an ongoing successful activity. AMCA absorbed substantial cost associated with consolidation of plants, particularly the crane/excavator and machine tool businesses and expects to realize the benefits of those moves in the future.

In the ordinary course of business, the sale of several small business units, product lines and/or plants was completed. The proceeds, substantially cash approximating $30 million, have no impact on the profit picture not previously provided for.

In a different context, a number of other businesses were identified that did not fit into future plans. The bulk have been sold. When complete, this package will generate about $85 million (book value) to be used for debt reduction. The sale will eliminate about 10 percent from annual sales with no short run P&L impact.

Profits given up should be offset by lower interest expense as a consequence of the debt reduction. In the longer term, certain of these businesses could have represented a profit drain.

AMCA continued to innovate relative to new products and services and spent in excess of $40 million on capital account on plant facilities to keep fully competitive and less labor intensive. Four acquisitions during 1985 add to product line resources.

Interest Expense and Financing

Interest expense continues to be a major drag on operating income. A 17 percent reduction in the level of expense was realized in 1985 with a comparable reduction in 1986 anticipated.

During 1985, AMCA entered into various fixed rate financing arrangements in lieu of previous floating rate facilities. The end result, in combination with the proceeds from sale of businesses noted above, will reduce the level of long-term debt early in 1986.

Management

A number of changes were made during 1985 to strengthen management throughout the ranks including the appointment of William R. Holland as president and chief operating officer plus several changes to the Board of Directors.

Outlook

The world economy in '86 is not expected to be much different from 1985. Capital spending in North America should be reasonably strong, benefiting from lower, more stabilized interest rates but impacted to some extent by delays in tax reform.

Internationally, continued uncertainty is the order of the day due to volatile oil prices and the weakening dollar. In that context:

AMCA's backlog continues to build. Margins improve – slowly – but remain below historical levels.

The U.S. dollar has weakened and should come down further, stemming the flow of foreign-made capital goods into North American markets and improving AMCA's ability to sell its products overseas.

What 1986 adds up to is: no boom, no bust. Rather, measured progress for the general economy. In this context, AMCA expects to make more substantial headway toward significantly better levels of profitability.

March 1986

Operating Philosophy and Objectives

In the first approximately 90 years of existence through the end of the 1960s, AMCA fabricated structural steel and provided engineering and construction services for the Canadian market. Through subsequent selective acquisitions and internal growth, the Company now also furnishes a broad range of construction equipment, engineering and construction services, industrial products and machine tools – manufactured and sold worldwide. This reflects the fact that, at the beginning of the last decade, the Company embarked on a specific program aimed at growth and diversification within the scope of its expertise – the design, engineering, marketing, manufacturing, installation and financing of capital goods and services sold primarily to industrial accounts.

That decision produced substantial profitable growth and diversification, as elsewhere recorded, and began with the acquisition of Varco-Pruden in 1970. In subsequent years, major acquisitions, such as Amtel, Koehring and Giddings & Lewis in 1977, 1980 and 1982, respectively, were complemented by a number of smaller purchases which significantly broadened AMCA's product line.

The program focused on balanced diversification to help the Company cope with the effects of economic cycles and product obsolescence while promoting participation in new markets and technologies. The overriding goals have been, and remain, to:

- Maintain the broadest posture possible;
- Straddle a number of industries and markets;
- Avoid the instability and unfavorable consequences often associated with one line of endeavor in one part of the globe.

AMCA allocates resources (people, money and materials) accordingly and invests for "return," avoiding emotional

Sales Distribution

Of the total of all AMCA International products and services provided during 1985, 66 percent was sold to customers in the United States, 18 percent was sold to customers in Canada, 9 percent to customers in Europe and 7 percent to customers in other areas of the world.

attachments to any product or physical location, recognizing that each has its day in the sun. Continuing emphasis is placed upon margins (profitability) and turnover (asset utilization relative to volume generated) to maximize return on investment. At any point in time, management is guided by several priorities:

– Avoid catastrophe (you don't bet the business on any single decision or set of decisions);

– Beat the current business plan;

– Organize for future profit improvement.

And, in the process:

– Work at improving the quality of earnings;

– Develop and retain capable management, in depth, in operations and at the corporate level, while –

– Continuing to strengthen AMCA's position in the industries the Company serves through judicious acquisitions from time to time and by entering new industries compatible with the Company's basic skills. As a result –

– Make AMCA better known and more highly regarded while continuing to seek headway in the vital area of return on shareholders' equity.

In that context, AMCA intends to continue to provide an expanded range of high quality industrial products and services for a widening spectrum of customers. The essence of management's current efforts is to bring the Company back to the profit levels it enjoyed prior to the recession of recent years which, with related developments, negatively impacted AMCA's fortunes. Management believes that, as a consequence of a number of cost reduction, consolidation and restructuring moves implemented, those profit levels are in the process of restoration but not at the expense of sacrificing longer term growth and profit objectives.

Sales and Operating Profit by Segment

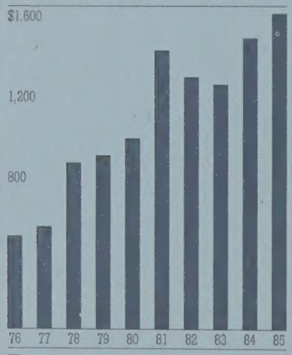
Sales (In Millions)

	Construction Products		Engineering and Construction Services		Financial, Marketing and Licensing Services	
	$	%	$	%	$	%
1985	274	18	444	29	36	2
1984	260	18	418	29	7	1
1983	201	17	315	26	3	–
1982	218	18	373	30	4	–
1981	309	23	439	32	3	–
1980	104	11	362	38	12	1
1979	–	–	349	40	33	4
1978	–	–	335	41	45	5
1977	–	–	104	20	59	11
1976	–	–	95	21	20	4

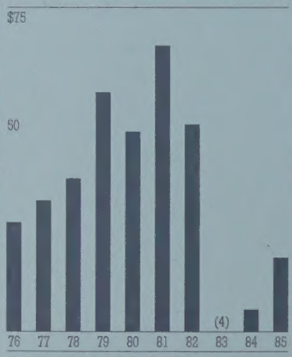
Operating Profit (In Millions)

	Construction Products		Engineering and Construction Services		Financial, Marketing and Licensing Services	
	$	%	$	%	$	%
1985	22	27	21	26	6	7
1984	13	21	21	34	3	5
1983	5	14	(2)	(5)	10	27
1982	15	12	30	25	20	16
1981	48	26	32	17	23	13
1980	15	17	18	20	1	1
1979	–	–	22	25	8	9
1978	–	–	37	40	5	5
1977	–	–	13	24	7	13
1976	–	–	10	19	2	4

Years 1977 to present are stated in U.S. dollars, while 1976 is stated in Canadian dollars.



Revenues
(In Millions)

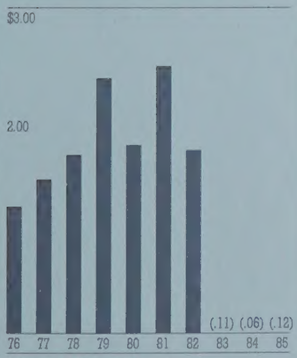


Operating Income
(In Millions)

From continuing operations

Industrial Products		Steel Products and Services		Total	
$	%	$	%	$	%
568	36	237	15	1,559	100
485	34	256	18	1,426	100
447	37	248	20	1,214	100
359	29	285	23	1,239	100
295	21	327	24	1,373	100
194	21	272	29	944	100
199	23	287	33	868	100
173	21	270	33	823	100
71	14	287	55	521	100
82	18	259	57	456	100

Industrial Products		Steel Products and Services		Total	
$	%	$	%	$	%
30	36	3	4	82	100
27	43	(2)	(3)	62	100
25	67	(1)	(3)	37	100
39	32	18	15	122	100
46	25	34	19	183	100
34	37	23	25	91	100
28	31	31	35	89	100
26	28	25	27	93	100
16	30	18	33	54	100
20	38	21	39	53	100



Operating Income Per Share

From continuing operations

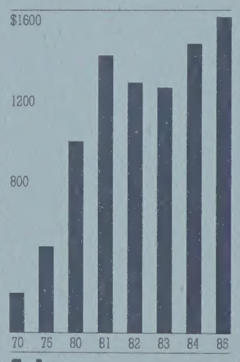
Statistical Summary

	1985
Operating Results ($Millions)	
Sales	**1,559**
Income (loss) from continuing operations	**17**
Net income (loss)	**17**
Total assets	**1,387**
Shareholders' equity	**591**
Per Common Share Data ($)	
Sales	**45.83**
Income (loss) from continuing operations	**(0.12)**
Net income (loss)	**(0.12)**
Common dividends paid in cash	**–**
Book value per common share	**9.45**
Other Information	
Number of common shareholders	**4,898**
Common shares outstanding (000)	**34,014**
Number of employees	**15,426**

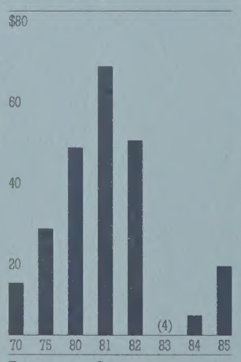
Per common share data, except book value, have been calculated based upon the weighted average shares outstanding during each year and have been restated for years prior to 1985 to give retroactive effect to the common stock dividend paid during 1985.

Income (loss) from continuing operations and net income (loss) per common share are calculated by deducting dividends applicable to preferred shares from the respective amounts and dividing the result by the weighted average common shares outstanding during each year. Book value per common share has been calculated by deducting preferred shares from shareholders' equity and dividing the result by the common shares outstanding at each year end.

Record of Growth



Sales
(In Millions)



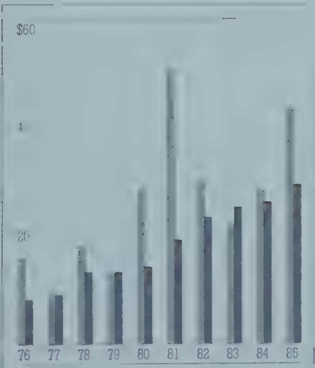
Income from Continuing Operations
(In Millions)

1984	1983	1982	1981
1,426	1,214	1,239	1,373
5	(4)	48	66
(2)	(39)	48	70
1,317	1,250	1,374	1,212
539	443	462	368
41.98	35.88	42.47	49.88
(0.06)	(0.11)	1.64	2.39
(0.26)	(1.16)	1.64	2.55
1.00	1.00	1.00	1.00
9.71	11.51	14.06	13.70
5,362	5,809	6,766	5,733
33,342	33,226	32,887	26,891
16,226	15,408	16,748	21,779*

The above data reflect the acquisition of Giddings & Lewis Inc., effective August 1, 1982.

*For purposes of this summary includes 4 474 at Giddings & Lewis

Return on Average Common Shareholders' Equity (%)



Capital
Expenditure
Depreciation
(In Millions)

Consolidated Per Common Share Data by Quarter ($)

	1985 December	September	June
Sales	**$11.83**	**$11.72**	**$11.92**
Continuing operations	**(.08)**	**–**	**.02**
Net income (loss)	**(.08)**	**–**	**.02**
Cash dividends	**–**	**–**	**–**
Common Share Price			
†TSE – High	**16½**	**17½**	**15½**
Low	**13¼**	**13½**	**13⅛**
‡NYSE – High	**12**	**13⅛**	**11¼**
Low	**9⅞**	**10**	**10**

Per share data have been calculated on a quarterly basis using the weighted average shares outstanding during each quarter and have been restated for 1984 to give retroactive effect to the common stock dividend paid by the Company during 1985.

†In Canadian dollars

‡In U.S. dollars.

Stock Information

Stock Exchanges
Montreal, New York, Toronto

Ticker Symbol
AIL

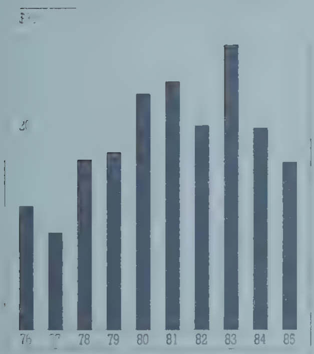
Transfer Agent and Registrar
Canada – The Royal Trust Company (Common and Preferred Series 1: Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. Preferred Series 2 and Series 3: Same, with Halifax additional)
United States – Manufacturers Hanover Trust Company (New York)

Stock Ownership
The Algoma Steel Corporation, Limited owns 34.5 percent of the Company's outstanding common shares. Canadian Pacific Enterprises Limited owns 16.2 percent of the Company's outstanding common shares and, in addition, owns 61.8 percent of Algoma's common shares. Canadian Pacific Limited owns 100 percent of the outstanding common shares of Canadian Pacific Enterprises Limited.

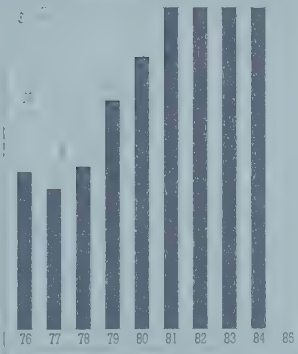
Dividend Information
Dividends were paid in 1985 as follows: CDN $2.21 on preferred shares Series 1, CDN$2.375 on convertible preferred shares Series 2, CDN$.88 on preferred shares Series 3 (for the period from issue date, August 13, 1985, to December 31, 1985) and a stock dividend (one share for every 50 shares held) equivalent to US$0.25 on the common shares, was paid for the quarter ended September 30, 1985. Dividends on common shares have been paid every year since 1912.

	1984			
March	December	September	June	March
$10.36	$10.43	$10.31	$10.85	$10 39
(.06)	(.21)	(.12)	.23	.04
(.06)	(.23)	(.30)	.23	.04
–	.25	.25	.25	.25
20⅜	21⅝	22	23½	28
14¼	17¾	17	19½	19¼
15⅜	16½	16¼	18⅛	22
10¾	13⅝	13½	15	15½

Income (loss) from continuing operations and net income (loss) per common share are calculated by deducting dividends applicable to preferred shares from the respective amounts and dividing the result by the weighted average common shares outstanding during each quarter.



Common Stock Price*



Common Stock Cash Dividend†

*Canadian Dollars Per Share.

At the end of December 1985 the stock closed at CDN$15.75 on the Toronto Stock Exchange. The closing price at the end of December on the New York Stock Exchange was $11.00.

†Dividends converted to U.S. dollars for purposes of this chart. The apparent reduction in dividends in 1977 resulted from the manner in which the Company chose to pay the increase allowed by the Canadian Anti-Inflation Board in late 1976.

Data adjusted to reflect the two-for-one stock subdivisions in October 1976 and December 1979.

Directors

Russell S. Allison
President
CP Rail

M. Norman Anderson
Chairman and Chief
Executive Officer
Cominco Ltd.

Kenneth S. Barclay
Chairman and Chief
Executive Officer
AMCA International Limited

Frederick S. Burbidge
Chairman
Canadian Pacific Limited

Robert W. Campbell
Vice Chairman
Canadian Pacific Limited

Michael D. Dingman
President and Director
Allied-Signal Inc.
To be Chairman and
Chief Executive Officer
The Henley Group Inc.

Stuart E. Eagles
Vice President Corporate
Canadian Pacific Limited

William R. Holland
President and Chief
Operating Officer
AMCA International Limited

John Macnamara
Chairman and Chief
Executive Officer
The Algoma Steel
Corporation, Limited

Brian R.B. Magee
Honorary Chairman
Royal LePage

John R. Meyer
Professor
Harvard University

Peter M. Nixon
President and Chief
Operating Officer
The Algoma Steel
Corporation, Limited

C. Douglas Reekie
Vice Chairman
CAE Industries Ltd.

James E. Robison
President
Lonsdale Enterprises, Inc.

Dalton D. Ruffin
Regional Vice President
Wachovia Bank and Trust
Company, N.A.

James R. Shepley
Vice Chairman
Pullman-Peabody Inc.
President
Wilton II, Inc.

Frank J. Stevenson
Executive Vice President
AMCA International Limited

Arthur Temple
Chairman
Temple-Inland Inc.

Robert J. Theis, Sr.
Chairman
Westover Holding Corporation

Principal Corporate Officers

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Executive Officer

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President and Chief
Operating Officer

Ross E. Chamberlain
Executive Vice President

Frank J. Stevenson
Executive Vice President

Senior Corporate Officers

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Group Vice President

Robert C. Kelley
Group Vice President

John B. Phelan
Group Vice President

John J. Reynolds
Group Vice President

Karl H. Schwamborn
Group Vice President

Julian B. Twombly
Group Vice President

John A. Davis
Senior Vice President
(General Counsel, Secretary)

Annual Report and 10-K Report

A copy of the Company's 1985 annual report and Form 10-K Report to the Securities and Exchange Commission, without exhibits, is available without charge upon request. Copies of previous annual reports, quarterly reports and the latest pictorial review, *World of AMCA International*, also are available. Please address your request to: Corporate Communications, AMCA International, Dartmouth National Bank Building, Hanover, NH 03755.

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Products and Services

AMCA International is engaged worldwide in designing, engineering, marketing, installing and financing of:

Construction Products

Engineering and Construction Services

Financial, Marketing and Licensing Services

Industrial Products including Machine Tools

Steel Products and Services

Company	Description	Construction Products	Engineering and Construction Services	Financial, Marketing and Licensing Services	Industrial Products	Steel Products and Services
AMCA Chimie et Plastiques	International trading services			•		
AMCA Financial Services	Financial assistance for purchasing of Company products and services			•		
AMCA International Finance	Financial assistance for purchasing of Company products and services			•		
AMCA Netherlands	Holding company and financial services			•		
AMCA Trading	International purchasing, marketing and consulting services			•		
ANCO/Votator	Processing equipment for food, meat and chemical industries				•	
Basic Electronics	Single, double-sided and multi-layered printed circuit boards				•	
Benton Harbor	Hydraulic cylinders				•	
BOMAG	Light and heavy duty compaction, stabilization and foundation equipment	•				
Cherry-Burrell	Processing and packaging equipment for food, dairy, beverage, pharmaceutical and cosmetic industries				•	
Clyde	Whirley cranes, specialized heavy duty lifting and pulling equipment				•	
Davis Tool	Boring tools, fixtures and special boring and facing machines				•	
DB Engineers & Constructors	Engineering and construction services		•			•
DB/McDermott*	Design, fabrication and installation of offshore structures and laying marine pipeline					•
Dominion Bridge	Fabricated industrial steel products and equipment, structural steel for buildings and bridges; steel service centers; engineering and construction services		•			•
Dominion Bridge-Sulzer*	Fabricated industrial steel products especially for electric utility applications; structural steel; construction services		•			•
Fenn	Precision aerospace components; metal forming machines				•	
Giddings & Lewis-Bickford	CNC machining centers, tool grinders, radial and upright drills				•	
Giddings & Lewis Electronics	Host computer systems, computer numerical controls, programmable controllers and microprocessors				•	
Giddings & Lewis Foundry	Castings and patterns				•	
Giddings & Lewis-Fraser	CNC machining and turning centers and textile machinery				•	
Giddings & Lewis Machine Tool	CNC horizontal machining centers, CNC vertical and horizontal turning centers				•	
Gilman	Automatic assembly equipment, balancing machines and vertical automatic lathes				•	
IMODCO	Offshore marine terminals		•			
JESCO	Commercial, industrial and process industry construction and millwright services		•			
Koehring Canada	Pulpwood harvesting and paper mill machinery	•				
Koehring Construction Equipment	General construction and material handling equipment	•				
Koehring Cranes & Excavators	Koehring hydraulic excavators, Lorain hydraulic and cable cranes	•				
Litwin Companies	Engineering and construction services to worldwide petroleum and chemical processors		•			
Manitoba Rolling Mills	Rolling mill products; bar and light structural steel sections					•
Marshall & Huschart	Machine tool distribution				•	
MENCK	Pile-driving hammers and related equipment		•			
Monroe Forgings	Alloy metal forged rings, bars, discs				•	
Morgan/Provincial	Industrial overhead traveling cranes; gantry cranes; steel mill equipment				•	
ORBA	Design, construction and operation of dry bulk material handling systems		•			
Pressed Steel Tank	Steel pressure vessels for storage of solids, liquids and gases				•	
Quonset Buildings	Pre-engineered rural buildings		•			
Robb Engineering	Structural steel fabrication and erection					•
Snyder	Special machine tools and transfer systems				•	
Span Holdings	International purchasing, marketing and consulting services			•		
Speedstar	Well drilling machines				•	
Stran Buildings	Pre-engineered non-residential buildings		•			
Unit Crane	Pedestal-mounted marine cranes				•	
Varco-Pruden Buildings	Pre-engineered non-residential buildings		•			

*Joint venture

C18 2-20M-486
Printed in Canada

QUARTERLY REPORT

AMCA International

update

AMCA INTERNATIONAL LIMITED JULY 1986

AMCA Reports Mid–Year Results, Outlines Restructuring Plan

(Unaudited Consolidated Financial Statements for the Quarter and Six-Month Period Ended June 30, 1986 — Stated in U.S. Dollars)

To the Shareholders:

The quarter ended June 30 was the best in terms of earnings from operations since 1982.

Sales of $383 million were up 6 percent over the same period in 1985 after eliminating businesses since divested. Net income of $15 million, including a pension refund of $7.7 million, improved from $5.4 million a year ago notwithstanding that the Company is currently unable to take tax benefit on losses in North America. Pre-tax earnings were up almost 90 percent before the pension refund.

For the six months ended June 30, 1986, sales of $752 million were up 12 percent over last year, after the divestitures mentioned above; net earnings were up from $8.2 million to $12 million, after reflecting additional taxes of $9.6 million and the pension refund. Providing for preferred share dividends of $11.8 million versus $9.5 million in 1985 produced income of 1 cent per common share contrasted with a loss of 4 cents on 34 million shares outstanding in both years.

As was the case two years ago, the pension refund recorded in the latest quarter reflects the continuing strong financial condition of the Company's pension plan for salaried employees in Canada.

New business booked of $832 million in the first six months of 1986 was 3 percent ahead of last year (after eliminating divestitures) leading to a backlog at the end of the half of $751 million, up substantially from $626 million in June 1985 and $685 million at year end (again after eliminating divested operations). Whereas earnings in the backlog are correspondingly improved, profit margins continue to show virtually no upward trend.

Although general economic factors continue to bode well, no consensus has been forged on the outlook for North American capital goods markets. Meanwhile, the manufacturing sector languishes — a condition we continue to believe will improve but which has yet to do so on any broad base. Hence, while the second quarter shows improvement, and whereas we remain reasonably optimistic about further market strengthening, the lack of buoyancy in capital goods has to date prevented the Company from generating the level of profitability expected.

The annual meeting address to shareholders (mailed with the first quarter report) referred to a program commenced last fall to sell certain modest-sized businesses not fitting into future plans and to the fact that management continued to evaluate various options to improve performance. In that context, at a Direc-

Continued on page 2

Continued from page 1

tors' Meeting held today, additional action was approved to significantly further restructure and rationalize the Company's asset base.

The program will involve:

- Divestiture of our Construction Equipment Segment (BOMAG-MENCK, Koehring Cranes & Excavators, Benton Harbor Engineering and Koehring Construction Equipment Division) and related financing units.
- Sale or liquidation of certain of our Canadian operations. We remain in traditional business lines but with a greatly reduced asset base.
- Sale of several remaining small businesses engaged in energy-related activities.
- Liquidation or consolidation of some remaining redundant assets and/or manufacturing facilities.
- Significant corporate overhead reductions commensurate with the aforesaid.

The program should be substantially complete by year-end and result in:

- Cash generation approximating $280 million, available for debt reduction.
- A one-time provision in the third quarter for a loss on restructuring of up to $50 million.
- A reduction of approximately $200 million from backlog associated with assets to be divested.
- An annual sales reduction of about $500 million.
- A major reduction of debt and significantly strengthened balance sheet.
- A significant reduction of annual interest expense associated with the debt reduction.
- Improved focus on the core elements of the Company's business which provide a solid base for future growth and profitability.
- An improved quality and predictability to earnings — all of which will contribute to future earnings and more effective management effort.

The sales and earnings of those operations to be disposed of will henceforth be excluded from Company results. Accordingly, for the second half of 1986, operating earnings will be less than otherwise anticipated because the cash benefits will not be realized soon enough to provide the significant interest reduction expected from the program.

In the longer term, the Company anticipates all of the benefits described above, as well as better asset utilization, significantly improved profitability and increased cash flow. Since the goal remains profitable growth, we believe that objective will be realized sooner than if restructuring were not undertaken.

Pursuant to the above, the sale to Northwest Engineering Company of Green Bay, Wisc., of the Koehring crane and excavator operations; the Benton Harbor Engineering Division; the associated receivables and the operations of AMCA International Finance Corporation, was approved. The effective date is July 1, 1986 with closing as soon as all legal and regulatory issues are complete.

At the Directors' Meeting today, dividends were declared on the preferred shares for the quarter ended September 30, 1986 payable September 30, 1986 to shareholders of record at the close of business on September 5, 1986:

- 55.25 cents in Canadian funds per share on the Series 1.
- 59.38 cents in Canadian funds per share on the Series 2.
- 57.81 cents in Canadian funds per share on the Series 3.

A dividend payable in fully paid common stock equal to 25 cents U.S. per common share was declared for the third quarter. As in 1985, this dividend maintains the Company's eligibility for investment by certain financial institutions in Canada. It will be payable September 30, 1986 to shareholders of record at the close of business on September 5, 1986. The number of common shares to be distributed will be based on the U.S. dollar equivalent (average of Bank of Canada noon rates) of the weighted average closing price on the Toronto Stock Exchange of AMCA common shares in the five (5) trading days ending July 25, 1986.

K. S. Barclay

Kenneth S. Barclay
Chairman

W. R. Holland

William R. Holland
President and
Chief Executive Officer

July 21, 1986

Consolidated Statements of Operations

Revenues
- Sales
- Equity in pre-tax earnings of unconsolidated subsidiaries and affiliates
- Other (Note 1)

Costs and expenses
- Cost of sales
- Selling, general and administrative expenses
- Depreciation and amortization
- Interest — net
- Foreign currency transaction (gain) loss

Income before income taxes

Income tax provision (benefit)

Net income

Income (loss) per common share

See accompanying note.

For the Quarters and Six Months Ended June 30, 1986 and 1985
(Stated in Thousands of U.S. Dollars)

Quarters Ended		Six Months Ended	
June 30, 1986	June 30, 1985	**June 30, 1986**	June 30, 1985
$ 383,498	$ 405,344	**$ 751,789**	$ 757,876
370	1,484	**540**	2,878
7,707	—	**7,707**	—
391,575	406,828	**760,036**	760,754
301,303	319,584	**598,860**	596,045
58,375	62,031	**114,180**	120,773
8,471	9,697	**17,193**	19,577
7,431	9,344	**14,416**	18,692
(2,384)	517	**(3,180)**	509
373,196	401,173	**741,469**	755,596
18,379	5,655	**18,567**	5,158
3,422	215	**6,581**	(2,993)
$ 14,957	$ 5,440	**$ 11,986**	$ 8,151
$ .27	$ .02	**$ .01**	$ (.04)

Consolidated Statements of Changes in Financial Position

Cash provided from (used by) operating activities
Income before net interest expense
Add (deduct) items not affecting cash
Depreciation and amortization
Deferred income taxes
Equity in net (income) loss of unconsolidated subsidiaries and affiliates

Net (increase) decrease in non-cash working capital balances related to operations
Other

Cash provided from (used by) investment activities
Additions to property, plant and equipment
Net proceeds from disposal of assets
Other

Cash provided from (used by) financing activities
Additions to long-term debt
Repayments of long-term debt (including current portion)
Proceeds from sale of long-term investment
Dividends
Interest — net
Other

Increase (decrease) in net cash during the period
Net cash at beginning of period
Net cash at end of period
Increase (decrease) in net cash
Cash and short-term deposits
Short-term borrowings

See accompanying note.

For the Quarters and Six Months Ended June 30, 1986 and 1985
(Stated in Thousands of U.S. Dollars)

Quarters Ended		Six Months Ended	
June 30, 1986	June 30, 1985	**June 30, 1986**	June 30, 1985
$ 22,388	$ 14,784	**$ 26,402**	$ 26,843
8,471	9,697	**17,193**	19,577
157	(2,031)	**(25)**	(6,723)
31	(626)	**391**	(1,384)
31,047	21,824	**43,961**	38,313
25,055	25,401	**15,448**	(17,633)
(9,353)	(176)	**(12,306)**	(3,190)
46,749	47,049	**47,103**	17,490
(8,806)	(7,927)	**(14,339)**	(23,985)
3,600	3,102	**52,655**	30,587
(246)	(98)	**(1,900)**	(1,786)
(5,452)	(4,923)	**36,416**	4,816
806	10,000	**1,499**	56,000
(46,327)	(30,075)	**(81,731)**	(65,025)
—	—	**42,701**	—
(5,878)	(4,777)	**(11,761)**	(9,540)
(7,431)	(9,344)	**(14,416)**	(18,692)
(620)	(308)	**(2,033)**	(1,902)
(59,450)	(34,504)	**(65,741)**	(39,159)
(18,153)	7,622	**17,778**	(16,853)
80,674	(18,303)	**44,743**	6,172
$ 62,521	$ (10,681)	**$ 62,521**	$ (10,681)
$ (38,471)	$ 10,541	**$ 4,997**	$ (27,271)
20,318	(2,919)	**12,781**	10,418
$ (18,153)	$ 7,622	**$ 17,778**	$ (16,853)

Consolidated Statements of Financial Position

As at June 30, 1986 and December 31, 1985
(Stated in Thousands of U.S. Dollars)

	June 30, 1986	Dec. 31, 1985
Current assets		
Cash and short-term deposits	$ 88,360	$ 83,363
Accounts and notes receivable	241,912	248,989
Inventories	296,415	289,392
Net assets of businesses to be disposed	36,128	85,107
Other current assets	9,609	9,279
Total current assets	672,424	716,130
Long-term investment	—	40,530
Investments in and advances to unconsolidated subsidiaries and affiliates	69,354	71,566
Fixed assets	250,845	250,053
Patents and intangibles	43,131	45,854
Goodwill	120,369	122,062
Other assets	160,719	141,127
	$1,316,842	$1,387,322
Current liabilities		
Short-term borrowings	$ 25,839	$ 38,620
Accounts payable and accrued liabilities	216,235	210,222
Other current liabilities	80,063	134,088
Total current liabilities	322,137	382,930
Long-term debt	387,195	395,205
Other deferred liabilities	16,451	17,865
	725,783	796,000
Shareholders' equity		
Preferred shares — Series 1	59,310	59,446
Convertible preferred shares — Series 2	155,278	155,278
Preferred shares — Series 3	55,290	55,290
Common shares	191,241	191,200
Retained earnings	184,100	183,875
	645,219	645,089
Equity adjustment from foreign currency translation	(54,160)	(53,767)
Total shareholders' equity	591,059	591,322
	$1,316,842	$1,387,322

See accompanying note.

Consolidated Statements of Retained Earnings

For the Six Months Ended June 30, 1986 and
Year Ended December 31, 1985
(Stated in Thousands of U.S. Dollars)

	June 30, 1986	Dec. 31, 1985
Balance at beginning of year	**$ 183,875**	$ 197,836
Net income	**11,986**	16,788
Dividends	**11,761**	29,195
Expenses related to issue of capital stock	**—**	1,554
Balance at end of period	**$ 184,100**	$ 183,875

See accompanying note.

Note to Financial Statements

1. Included in Other revenues on the Consolidated Statements of Operations for the quarter and six months ended June 30, 1986 is a $7,707 refund of a surplus in the Company's pension plan in Canada.

Common Stock Trading Activity

For the Quarter Ended June 30, 1986
Ticker Symbol: AIL

Exchange	Shares Traded	High	Low	Close
Toronto*	1,575,652	20	16½	16⅞
Montreal*	510,442	20	16½	16⅝
New York	148,600	14¼	11⅝	12⅛

* Canadian Dollars

Significant New Contracts

In recent weeks AMCA International units have booked a number of notable contracts with customers throughout North America and internationally. A sampling of the more significant includes:

$55,000,000

Clyde to supply cranes and equipment to a number of customers including McDermott International and the U.S. Navy. The McDermott contract covers design and fabrication of a 5,000-ton capacity shearleg derrick, the largest of its kind in the world. Clyde is also the subcontractor for engineering, design and production supervision for 23 60-ton capacity gantry cranes for general maintenance work at four U.S. Navy bases.

$3,000,000

Contracts from Dofasco Inc. in Hamilton, Ont., for Dominion Bridge-Ontario to supply 2,150 tons of structural steel for a downcollar extension and roll grind shop extension, both to the No. 2 hot strip mill for which DB-Ontario supplied nearly 10,000 tons of structural steel in 1981.

$9,000,000

JESCO to construct an addition to the Lewis Grocer Company retail support facility in Hammond, La. JESCO completed the original facility in 1985. Lewis Grocer Company is a division of Super Valu Stores, Inc., of Minneapolis, Minn.

$2,000,000

Orders from General Motors Division for Gilman to supply disc brake assembly machines.

$12,500,000

A variety of major orders for Giddings & Lewis Machine Tool and G&L-Fraser that contribute to G&L's most active booking period in the past 18 months and include:

Two horizontal machining centers for transmission cases;

Twin spindle vertical chuckers for a defense facility;

Vertical turret lathes for a leading aerospace contractor;

A G&L cell with two horizontal machining centers, material handling and multiple setup stands for an auto manufacturer in the United Kingdom;

Vertical and horizontal machining centers for manufacturers of mining, paper box and electromotive equipment.

$1,250,000

The Dominion Bridge-Sulzer Energy Division to supply a 2,350 kilowatt generating unit featuring a standard S-turbine and synchronous generator and governor to Central Maine Power Company for the Lockwood hydroelectric project in Waterville, Me.

$3,400,000

Machining of CFM56 turbofan engine parts by Fenn Manufacturing for the General Electric Aircraft Engine Business Group in Evendale, Ohio. CFM56 engines power Boeing's 737-300 airliners, the best selling commercial airplane during the past year, and eight other commercial and military aircraft.

$14,000,000

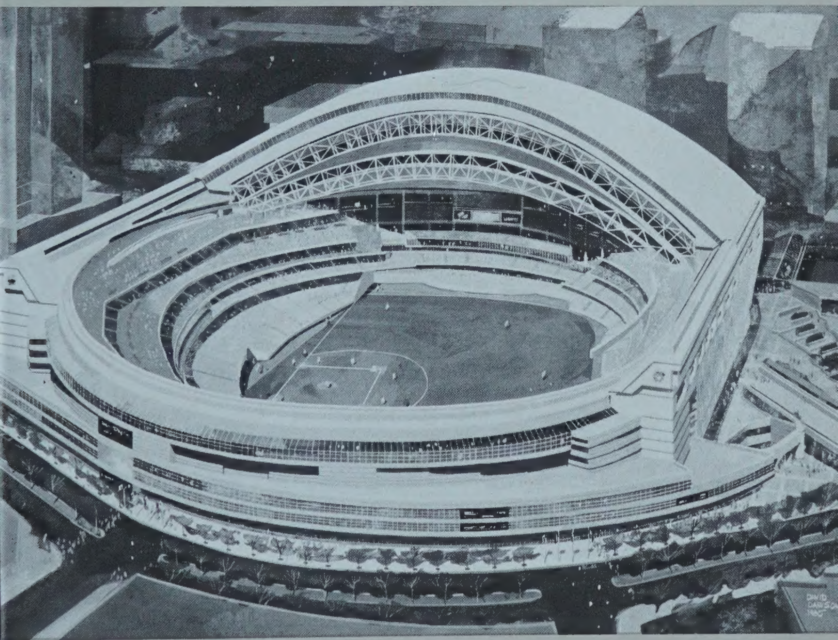
Dominion Bridge-Winnipeg to supply and install intake gates, guides and hoists to Manitoba Hydro for the Limestone generating station project on the Nelson River.

$10,000,000

Six major construction projects for JESCO including two factory additions, a manufacturing plant and an office-manufacturing-warehouse facility in Mississippi, a manufacturing facility in Alabama and an office-warehouse complex in Virginia.

$7,800,000

Contracts for Dominion Bridge-Sulzer's Structural/ Mechanical Division to supply and erect structural steel for a 13-story commercial building in New York City, design and supply of major vessels for a new residual fluid catalytic cracking unit at a refinery in Montreal and complete design, supply, fabrication, erection, testing and commissioning of storage tanks for liquid oxygen and liquid nitrogen at a facility in Contrecoeur, Que.



Domed Stadium Coming to Toronto . . . *Dominion Bridge-Ontario will be a major participant in construction of the world's first retractable roof stadium to be built in Toronto. Under a $31 million subcontract from Ellis-Don Limited, the design-build-general contractor to the Ontario Stadium Corporation, DB-Ontario will supply, fabricate and erect 9,000 tons of structural steel and 1,800 tons of drive machinery from the removable roof and movable seating for the stadium which is scheduled to open in 1989.*

G&L Opens Cell Doors

Today's competitive world marketplace demands that successful manufacturers be capable of providing products of top quality, competitively priced and delivered on time.

Too, manufacturers must be fully capable of making product changes swiftly in response to changing market demands. The "cell" manufacturing concept meets all of these requirements — and Giddings & Lewis is a leader in this technology.

Briefly, a cell repetitively produces machined parts of consistent quality with minimal human intervention, allowing very competitive pricing.

A manufacturing cell generally consists of one to four machines, a material handling system to move work from machine to machine and a computer or cell controller.

G&L is able to offer in-house capability and experience in designing, manufacturing and installing a wide range of machine tools, its own computer controls designed and manufactured by G&L Electronics and years of systems experience developed through its Gilman unit.

G&L is an experienced builder of successful machining cells — an innovative integrator of advanced machines, workhandling devices/vehicles and control systems.

Cell technology is not a passing fancy. It is the future — here and now — and G&L is an active participant, filling the needs of small to medium-sized manufacturers in North America and around the world.

Lawrence Heads G&L

Louis J. Lawrence has been named president and chief operating officer of Giddings & Lewis.

Mr. Lawrence succeeds John J. Reynolds who served as president of G&L on an interim basis since January 1986.

Until his appointment, Mr. Lawrence was president and chief executive officer of Goetze Corporation of America, a world leader in the production of engine sealing components based in Michigan.

Prior to his Goetze experience, Mr. Lawrence was vice-president of production at Bendix Corporation. He previously spent 16 years in various executive positions with Ford Motor Company.

Mr. Lawrence, 51, received a bachelor's degree in industrial engineering from the University of Tennessee and an MBA from Eastern Michigan University.

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C18.7-24E-2F-786

Printed in Canada